



# Weekly Economic Digest



Joint Economic Committee—Democratic Staff  
Senator Jack Reed (RI)—Ranking Member

May 1, 2001

## Economic Growth Surpasses Expectations in the First Quarter

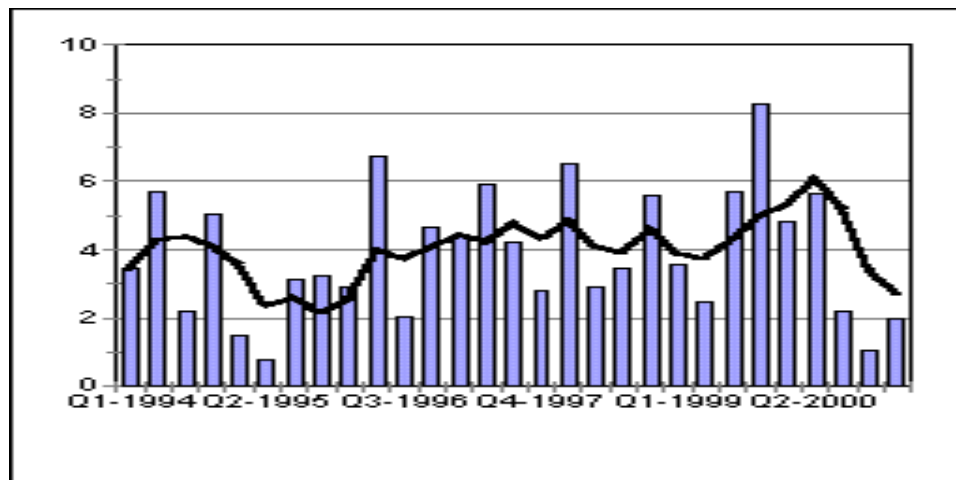
Real gross domestic product grew at a 2 percent annual rate in the first quarter of this year. Although that growth was about twice the rate most analysts were predicting, *the pace is well below the economy's potential rate of growth*. Current conditions are consistent with rising unemployment.

Contributing to that surprising first-quarter strength were:

- a surge in real household purchases of durable goods spurred on by low rates of interest and dealer incentives for motor vehicle purchases;
- robust spending on residential and nonresidential construction; and
- a respectable uptick in real government purchases.

Households' disposable income also grew at a 2 percent rate in the first quarter, after adjusting for inflation.

Percent Growth in Real GDP, 1994:I - 2001:I



Quarterly growth (bar plot) and four-quarter growth (line plot)

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce.

Real compensation of workers in private industry also grew modestly in the first-quarter, with compensation—as measured by the Employment Cost Index—outpacing growth in consumer prices by a scant 0.4 percentage points, slower than the pace of the past several years.

As yet we do not have estimates of first-quarter corporate profits—the Commerce Department will publish its first estimates at the end of May, after the Fed's next FOMC next meeting on May 15. Corporate profits are widely believed to have weakened in the first quarter.

ECONOMY AT A GLANCE	Apr	Mar	Feb	Jan	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000 Qtr 2	2000	1999
<b>Economic Activity</b>										
Real GDP (% growth)					2.0	1.0	2.2	5.6	5.0	4.2
Industrial Production (% growth)		5.0	-4.0	-7.1	-4.8	-0.9	3.5	7.9	5.6	4.1
Capacity Utilization (Level, %)		79.4	79.3	79.9	79.5	81.3	82.4	82.6	82.1	81.2
Civilian Unemployment Rate (Level, %)		4.3	4.2	4.2	4.2	4.0	4.0	4.0	4.0	4.2
Housing Starts (Thousands)		1613	1634	1671	1639	1557	1528	1605	1605	1676
Real Disposable Personal Income (% growth)		5.2	2.7	0.2	2.0	0.7	2.6	3.7	2.8	3.2
Retail Sales (% growth)		-3.0	-0.6	17.0	4.5	0.4	5.6	1.9	7.8	9.1
Personal Saving Rate (Level, %)		-0.8	-1.0	-1.3	-1.0	-0.7	-0.2	0.3	-0.1	2.2
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)		0.7	3.5	7.8	4.2	2.9	3.5	3.0	3.4	2.2
Core CPI-U Inflation (% growth)		2.6	4.0	4.0	3.2	2.4	2.5	2.7	2.4	2.1
Compensation per Hour (% growth)					4.6	3.5	3.8	4.2	4.3	3.2
Output per Hour (% growth)						2.4	2.7	6.3	4.3	2.6
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	<b>3.9</b>	4.4	4.9	5.2	4.8	6.0	6.0	5.7	5.8	4.6
T-Note Rate, 10-years (Level, %)	<b>5.1</b>	4.9	5.1	5.2	5.1	5.6	5.9	6.2	6.0	5.6
Federal Funds Rate (Level, %)	<b>4.8</b>	5.3	5.5	6.0	5.6	6.5	6.5	6.3	6.2	5.0
Dow Jones Industrial Avg (Index Level)	<b>10234</b>	10081	10775	10683	10513	10586	10882	10703	10735	10465
<p><b>SOURCES:</b> Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor. Italicized values are estimates by the Democratic Staff of the Joint Economic Committee.</p> <p><b>NOTES:</b> Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate the secondary market rate.</p>										

## Major Economic News Due This Week:

- Employment, April** [Release: Friday, May 4, 2001]  
 This release will be examined closely by the Fed during the May 15 meeting of the FOMC. Most analysts expect that employment increased in April, though not by enough to have reversed the declines posted in March.